THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

1986 Financial Report

87-03954/

THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

TABLE OF CONTENTS

MAP OF THE REGION 1

THE REGION 2

MEMBERS OF REGIONAL COUNCIL 3

MESSAGE FROM THE REGIONAL CHAIRMAN 4-5

REPORT OF THE FINANCE COMMISSIONER 6-9

FIVE YEAR REVIEW 10

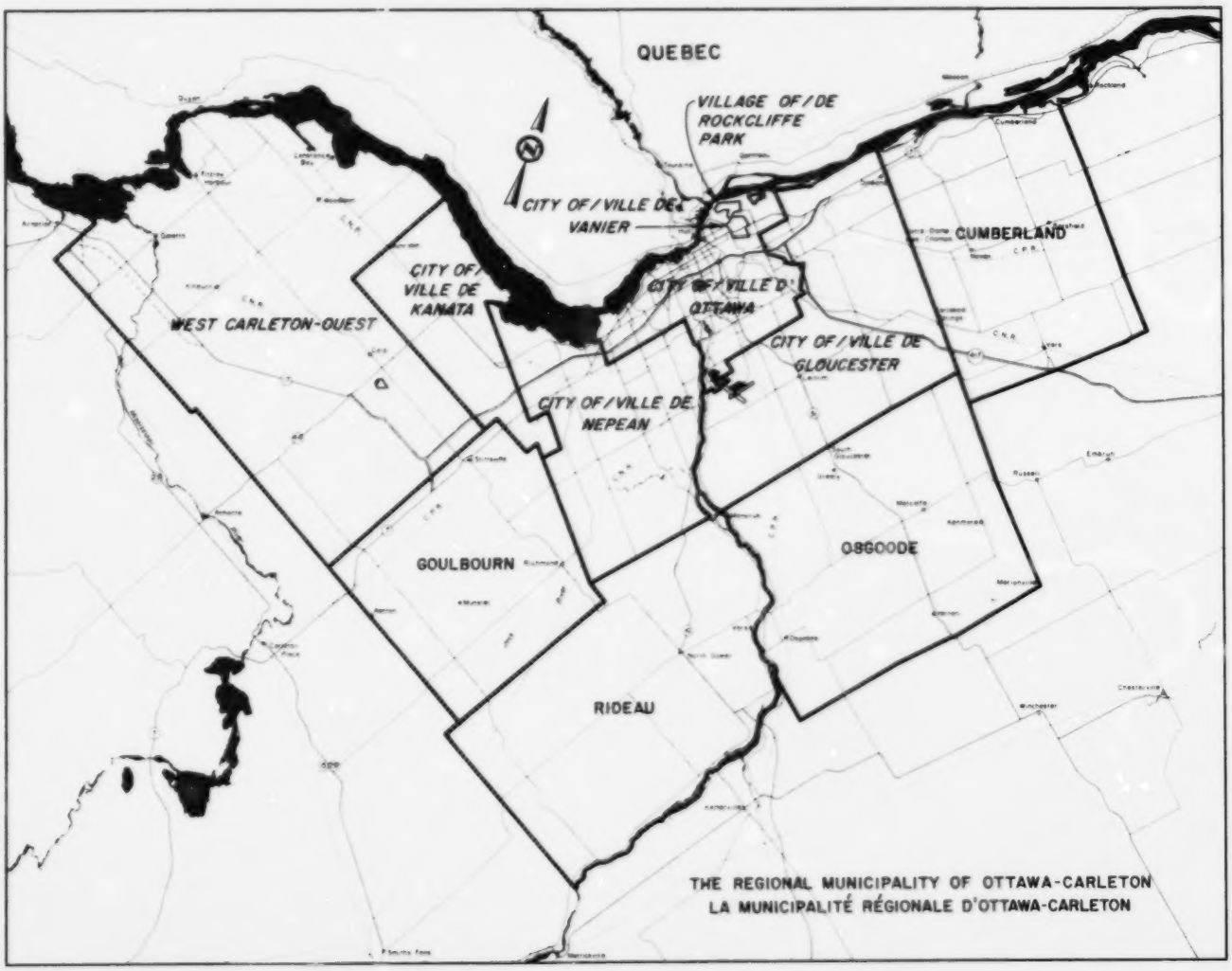
1986 FINANCIAL STATEMENTS

- Auditors' Report 11
- Consolidated Balance Sheet 12
- Consolidated Statement of Operations 13-14
- Consolidated Statement of Reserves and Reserve Funds 15
- Notes to Consolidated Financial Statements 16-20

TRUST FUNDS

- Auditors' Report 21
- Statement of Continuity and Balance Sheet 22
- Note to Financial Statements 23

THE REGIONAL
MUNICIPALITY OF
OTTAWA-CARLETON



The Regional Municipality of Ottawa-Carleton, "the Region", established in 1969, was Ontario's first regional municipality and formed the framework for the creation of similar governmental units throughout the Province. The Region remains the largest of the ten regional municipalities with a 1986 population of 605,545 representing 245,052 households.

The Region centres on the City of Ottawa, Canada's National Capital, and together with the Quebec portion of the National Capital area, represents the fourth largest metropolitan area in Canada. While being very much an urban centre, the Region also incorporates a large rural area with its 2,757 square kilometre (1,064 square mile) boundaries.

This diversity in demographic make-up, together with the need for the co-ordination of land use planning, transportation systems, water services and environmental control led to the creation of the Region in 1969 and remains as strong a need today as it was at that time.

The governing body of the Region is Regional Council, which consists of thirty-two elected representatives from the member municipalities plus the Regional Chairman, who is elected by the Regional Council and serves as the Chief Executive Officer.

LOCAL RESPONSIBILITIES

- recreation and community services including parks and libraries
- fire protection
- police protection
- local streets, sidewalks and street lighting
- local sewers
- garbage collection
- local planning and zoning
- building permits
- tax collection for the area municipalities, the Region and school boards.

MEMBER MUNICIPALITIES

	1986 Population	Representation on Regional Council
Ottawa	303,667	16
Nepean	94,307	4
Gloucester	88,867	3
Kanata	26,963	1
Vanier	18,619	2
Cumberland	26,111	1
West Carleton	11,576	1
Osgoode	10,924	1
Goulbourn	12,027	1
Rideau	10,152	1
Rockcliffe Park	2,332	1
	605,545	32

REGIONAL RESPONSIBILITIES

- arterial roads and traffic
- water filtration and distribution
- sewage collection and treatment and solid waste disposal
- health and social services including grants to hospitals, health care, welfare, day care, and homes for the aged
- region wide planning
- debt financing
- tourism and industrial and commercial development
- public transit including transitways and OC Transpo

DECEMBER 1985-NOVEMBER 1988 COUNCIL

THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

ANDREW S. HAYDON
Chairman

CONSEIL DÉCEMBRE 1985-NOVEMBRE 1988

MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

HARRY ALLEN
Mayor
City of Gloucester
Executive Committee Member

ALBERT BOUWERS
Mayor
Osgoode Township
Executive Committee Member

PETER CLARK
Mayor
Township of Cumberland
Executive Committee Member

JIM DURRELL
Mayor
City of Ottawa
Executive Committee Member

BEN FRANKLIN
Mayor
City of Nepean
Executive Committee Member

JACQUELIN HOLZMAN
Alderman
City of Ottawa
Executive Committee Member

DARREL KENT
Alderman
City of Ottawa
Executive Committee Member

MICHAEL McSWEENEY
Alderman
City of Ottawa
Executive Committee Member

DES ADAM
Mayor
City of Kanata

GLENN BROOKS
Mayor
Township of Rideau

GEORGE BROWN
Alderman
City of Ottawa

CLAUDETTE CAIN
Alderman
City of Gloucester

RICHARD CANTIN
Alderman
City of Gloucester

ERIC CRAIG
Mayor
Twp. of W. Carleton

JAMIE FISHER
Alderman
City of Ottawa

BERYL GAFFNEY
Alderman
City of Nepean

MAC HARB
Alderman
City of Ottawa

DIANE HOLMES
Alderman
City of Ottawa

GORD HUNTER
Alderman
City of Nepean

GEORGE KELLY
Alderman
City of Ottawa

RONALD KILLEEN
Alderman
City of Vanier

GISÈLE LALONDE
Mayor
City of Vanier

MARC LAVIOLETTE
Alderman
City of Ottawa

MARK MALONEY
Alderman
City of Ottawa

BOB MORRISON
Alderman
City of Ottawa

PATRICK MURRAY
Mayor
Vill. of Rockcliffe Pk

JOAN O'NEILL
Alderman
City of Ottawa

ROB QUINN
Alderman
City of Ottawa

FRANK REID
Alderman
City of Nepean

NANCY SMITH
Alderman
City of Ottawa

RUTH WILDGEN
Alderman
City of Ottawa

ANTON WYTENBURG
Mayor
Twp. of Goulbourn

This last year has been very busy and most interesting for the elected representatives and employees of the Regional Municipality of Ottawa-Carleton.

REGIONAL HEADQUARTERS

Since its formation in 1969, the Region has been renting space to house its administration. Staff performing duties related to the provision of services ranging from planning, water supply, sewage treatment, waste disposal, roads, traffic control to debt financing have been operating from rented office space. Both the transit operation and health and social services have their own premises.

Council in 1986 made the decision to continue to employ public funds economically by building and owning its own headquarters. In simple terms: buying is always more financially advantageous than renting. The Teachers' College and adjacent property on Cartier Square in the central core of the City of Ottawa, have been purchased from the Federal Government and plans are underway for the restoration of a unique heritage building together with the construction of a new contemporary administrative complex. The total cost for the project is $87 million.

The internationally acclaimed firm of Moriyama and Teshima Architects has been selected to design this new project. Construction will begin in Spring 1987 with the anticipated completion date in early 1990.

It is estimated that approximately 160 jobs per year will be created in Ottawa-Carleton as a result of the construction of this complex.

WATER SUPPLY

In the fall of 1986, the first contract for the replacement of the Lemieux Island Bridge and pipecarrying structure to the Lemieux Island Filtration Plant was awarded. While this work is progressing, the Britannia Filtration Plant will undergo major construction to increase its capacity from 225 MLD to 360 MLD.

Following the completion of the Lemieux Island Bridge and the expansion of the Britannia Filtration Plant, additional rehabilitation works will be carried out at the Lemieux Island Filtration Plant.

POLLUTION CONTROL

Two major projects are being initiated to ensure the maintenance and improvement of our environment.

(a) **The Green Creek Pollution Control Plant** is undergoing a massive expansion and improvement. Capacity will be increased by 50% and the plant will be transformed from primary to secondary treatment. The cost is estimated at $300 million. Without significant support from both the Provincial and Federal levels of government this heavy burden of cost will fall directly on the ratepayers of Ottawa-Carleton. The expansion involves:

- a new laboratory
- administration building
- increased pumping capacity
- expansion from 80 MGD to 120 MGD
- secondary treatment

(b) **The Phase-out** of the **Watts Creek Treatment Plant** is a program endorsed by all three levels of government. The Watts Creek Plant is upstream of both the Lemieux and Britannia Purification Plants as well as the Outaouais Purification Plant. This will involve the following works at a cost of some $85 million.

- 78-inch gravity sewer from Watts Creek Plant to a new pumping station near Acres Road and Highway 417
- A forcemain from the pumping station to the end of the Lynwood Collector Sewer
- completion of the South Ottawa Collector from Russell Road to Green Creek

It is hoped that these projects will be completed by 1992.

WASTE MANAGEMENT

The Waste Management Master Plan which will provide a blueprint for solid waste handling in Ottawa-Carleton for the next 25 years is nearing the end of Phase II and will provide consultants' recommendations identifying specific technologies and sites. Following an opportunity for public review, the Phase II report will be submitted to Council for its decision in early 1988. Phase III, providing a report sufficient for Environmental Assessment review, will be completed by the end of 1988.

LEES AVENUE/RIDEAU RIVER

In an effort to protect the environment over the past year, the Region has been involved in the clean-up, removal and containment of coal tar deposits from the Lees Avenue area, which had previously been the site of a former gasification plant abandoned in the early 1960's. It is expected that work on the Rideau River section of this project will continue in 1987 at a total estimated cost of approximately $12 million. The Provincial Ministry of the Environment has committed $5.5 million to the project.

9.1.1 EMERGENCY SERVICES

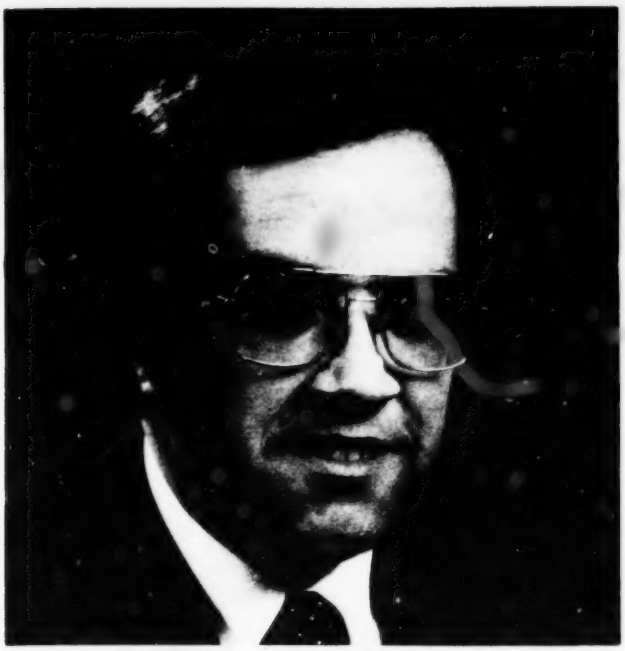
Final approval was given in June 1986 to the implementation of a 9.1.1 Emergency System throughout the Ottawa-Carleton area. This system will provide citizens with simple, easy access to emergency services. The project is on schedule for startup in July 1988.

1994 COMMONWEALTH GAMES

The Commonwealth Games Bid Organizing Committee, is in the final stages of presenting a National Bid Application to the Commonwealth Games Association of Canada. The Association's selection committee will visit the National Capital Region this summer to examine facilities and complete a technical analysis of the Ottawa-Carleton bid application. Final selection of a Canadian host city will take place in November after presentations have been made by all candidate cities. If successful, the Bid Organizing Committee will begin preparations for an International Bid to take place in 1988.

These projects cannot be undertaken without the hard work, dedication, expertise and knowledge of the 4,500 employees of the Regional Municipality of Ottawa-Carleton. Together with the leadership provided by the elected representatives, we are ensured that the residents of Ottawa-Carleton will continue to receive excellent value for money spent.

Andrew S. Haydon
Chairman



INTRODUCTION

I am pleased to present the 1986 Financial Report of the Regional Municipality of Ottawa-Carleton.

This report covers the current and capital operations of the Region and the Ottawa-Carleton Regional Transit Commission. Trust funds at the Homes for the Aged, the Regional Sinking Fund and certain programs administered by the Health Department on behalf of the Province of Ontario are not included.

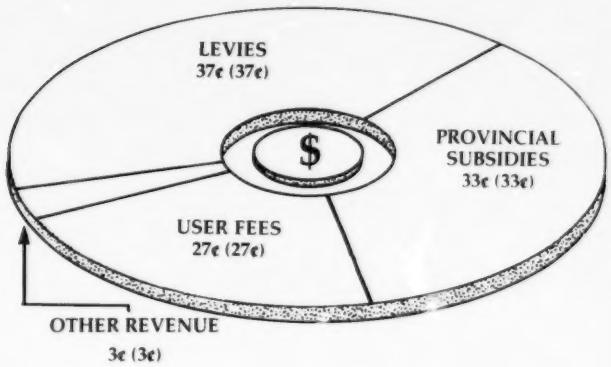
YEAR-END POSITION

The Region ended the year with a surplus of $5.6 million on operations. In accordance with past practice, Council directed that this surplus be contributed to capital reserve funds to reduce the long term debt requirements for capital projects. Since 1982, over $25 million in supplementary contributions have been made to these reserve funds and has proven to be very effective in reducing the Region's long term debt requirements.

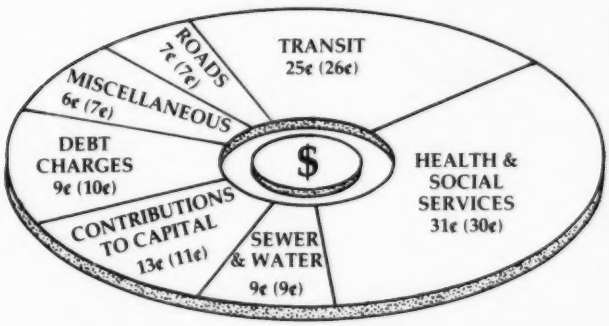
CURRENT OPERATIONS

The ratio of the various components of the operating revenue dollar remained essentially the same as in 1985. Revenue from the Regional levy amounted to 37¢ of every dollar while provincial unconditional grants and direct subsidies on such programs as health and social services, road and bridge maintenance and transit operating costs amounted to 33¢. The majority of the remaining revenue

OPERATING REVENUE
1986 (1985)



OPERATING EXPENDITURES
1986 (1985)



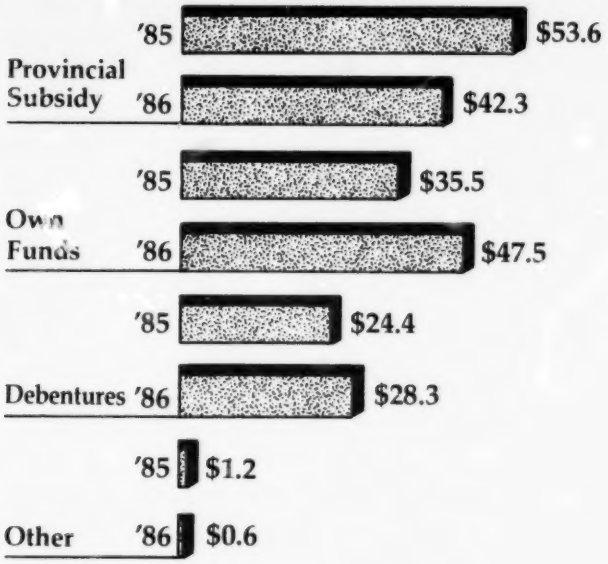
was generated through water and sewer rates as well as transit fares and residents fees charged at the three Homes for the Aged.

While there was a slight shift in the rate of expenditure in the operational areas, the most significant shift was in the area of capital financing. Contributions to the capital fund and reserve funds increased by 2¢ and debt charges fell by 1¢ which reflects the benefits of the Region's "pay-as you-go" policy adopted several years ago.

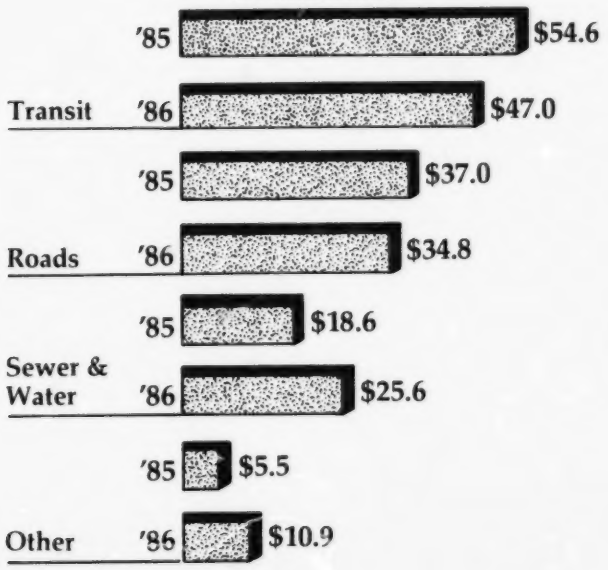
CAPITAL OPERATIONS

A shift in capital spending occurred in 1986 in that transit and road expenditures were less than in 1985 while other programs increased. The major project contributing to the increase in Sewer and Water was the Green Creek Pollution Control Centre expansion. This trend will continue in 1987 with additional work on plant expansion and other major projects such as the Lemieux Island and Britannia water plants, the Regional Headquarters building and Carleton Lodge.

CAPITAL FINANCING
(IN MILLIONS)



CAPITAL EXPENDITURES
(IN MILLIONS)

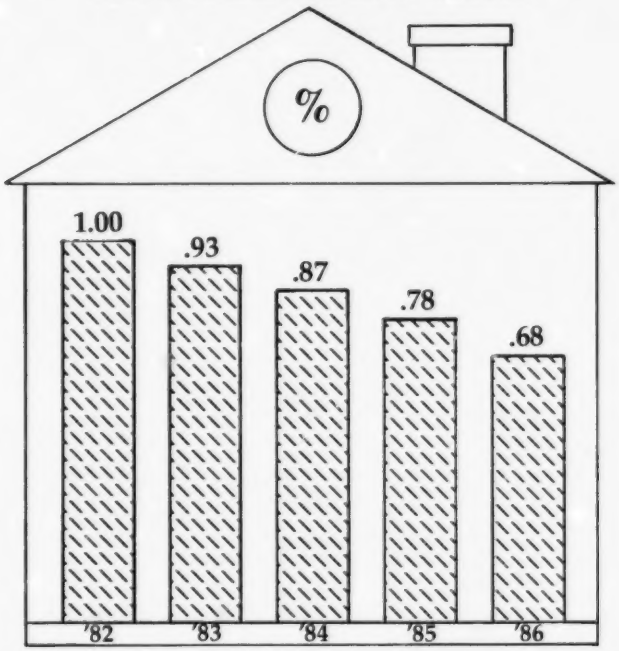


The reduction in capital subsidies received from the Province of Ontario results from the reduced spending on the transit and road programs. As a result of this shift in capital spending, net financing requirements increased from 50% of gross expenditures in 1985 to 62% in 1986. The major portion of this increased requirement was financed from current operations and reserve funds

NET LONG TERM DEBT

The Region's net long term debt stood at $201 million at the end of 1986 compared to $165 million five years ago. While this is a significant increase in absolute dollars, it is relatively small considering a capital spending program of over $500 million during this period. While the dollar value of debt is growing, the debt/assessment ratios since 1982 have, in fact, been falling.

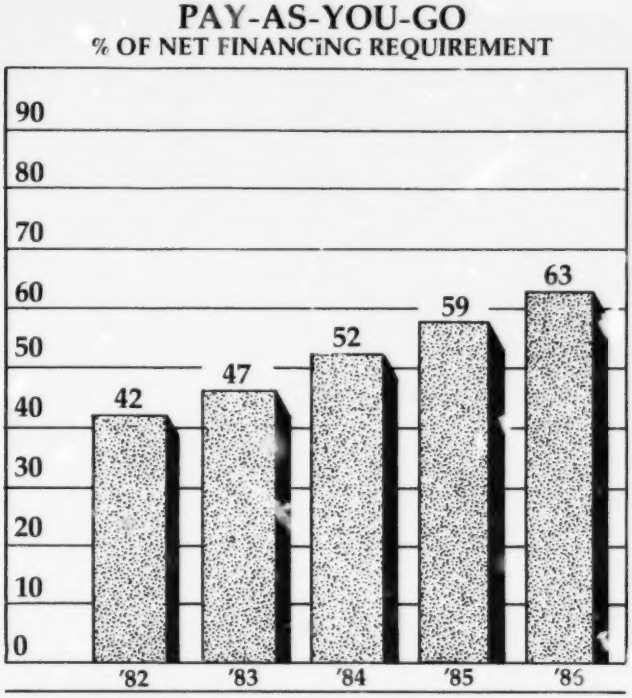
DEBT/ASSESSMENT RATIO

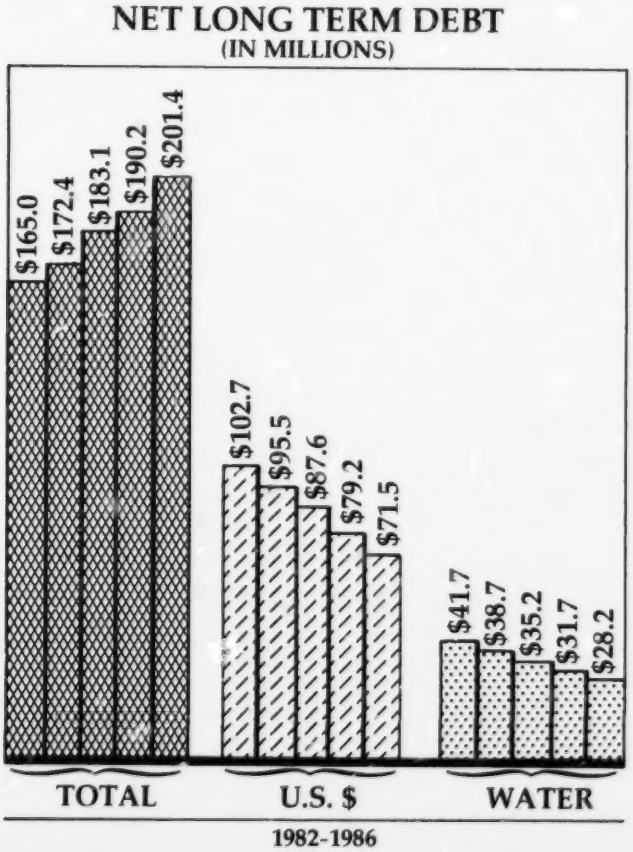


This relative stability in the Region's long term debt was achieved through Council's determined effort over the period to fund an increasing proportion of the capital spending program on a "pay-as-you-go" basis. Funding on this basis has increased from 42% of net financing requirements in 1982 to 63% in 1986.

In fact, no new debt has been issued for the water system since 1982 despite capital expenditures of $34 million during the period. The outstanding debt for this system has therefore steadily declined from almost $42 million to its present level of $28 million.

The Region's net long term debt includes $71.5 million of U.S. denominated debentures which are recorded in Canadian dollars at the rate of exchange prevailing when the debentures were issued. Translation at the rate of exchange on December 31, 1986 would increase the debt by $17 million. The Region has a Debenture Currency





Exchange Reserve Fund in the amount of $7.7 million that is used to partially offset foreign exchange costs incurred on the repayment of this debt. From time to time, the Region also utilizes forward exchange contracts to minimize potential exchange risk. It should be noted that no new U.S. debt has been issued by the Region since 1982.

RESERVES AND RESERVE FUNDS

In recent years, a signficant portion of the Region's capital spending has been on growth-related projects. Although developers may be required to construct roads, and install sewer and water services as a condition of subdivision agreements, costs of upgrading services to and from new developments in the past were borne by the ratepayers. In addition, developers made no contributions to the capital costs of upgrading other services such as pollution control centres and water purification plants.

Recognizing this, the Region introduced Regional Development Charges on residential development in 1985. These charges were phased in over a three year period with full rates put into effect January 1, 1987. Funds collected from this source are held in reserve funds and used to finance growth-related capital projects. While revenues from Regional Development Charges were less than $1 million in 1985, over $9 million was collected in 1986 with the largest portion being received at the end of the year just prior to the imposition of the full rates.

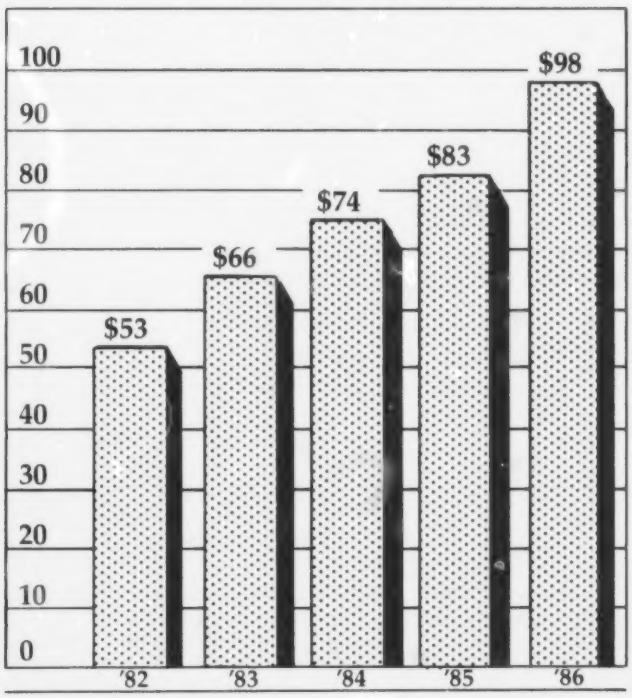
A further policy study regarding the imposition of development charges on commercial and industrial development was started in 1986 and will be submitted to Council in the spring of 1987.

Reserves and reserve funds have grown from about $53 million five years ago to almost $98 million at the end of 1986. It should be noted however, that over $41 million of the 1986 balance has been committed to finance capital projects already under construction. Most of the remaining $57 million is held for other purposes such as growth-related capital projects, replacement of equipment, foreign exchange costs on the repayment of long term debt and the Region's liability for vested sick leave and annual leave.

Pending the use of these reserve funds to finance these projects as spending occurs, they represent an important source of borrowing for the Region to meet it's day-to-day cash flow requirements on operations. At the end of 1986, loans to current operations amounted to $27 million with an additional $39 million held in other forms of short term holdings. The remainder of reserve fund investments consisted mainly of holdings in the Region's own debentures.

The Region continues to maintain a sound financial position resulting from the positive fiscal decisions taken

RESERVES & RESERVE FUNDS
(IN MILLIONS)



by Council in recent years; an aggressive pay-as-you-go policy, the introduction of Regional Development Charges and significant improvements in annual levy increases just to mention a few. This has been confirmed early in 1987 by the recent upgrade in the Region's credit rating by Standard & Poors' from AA to AA+ while Moody's Investor Services have again confirmed the Region's long-standing Aaa rating with that firm.

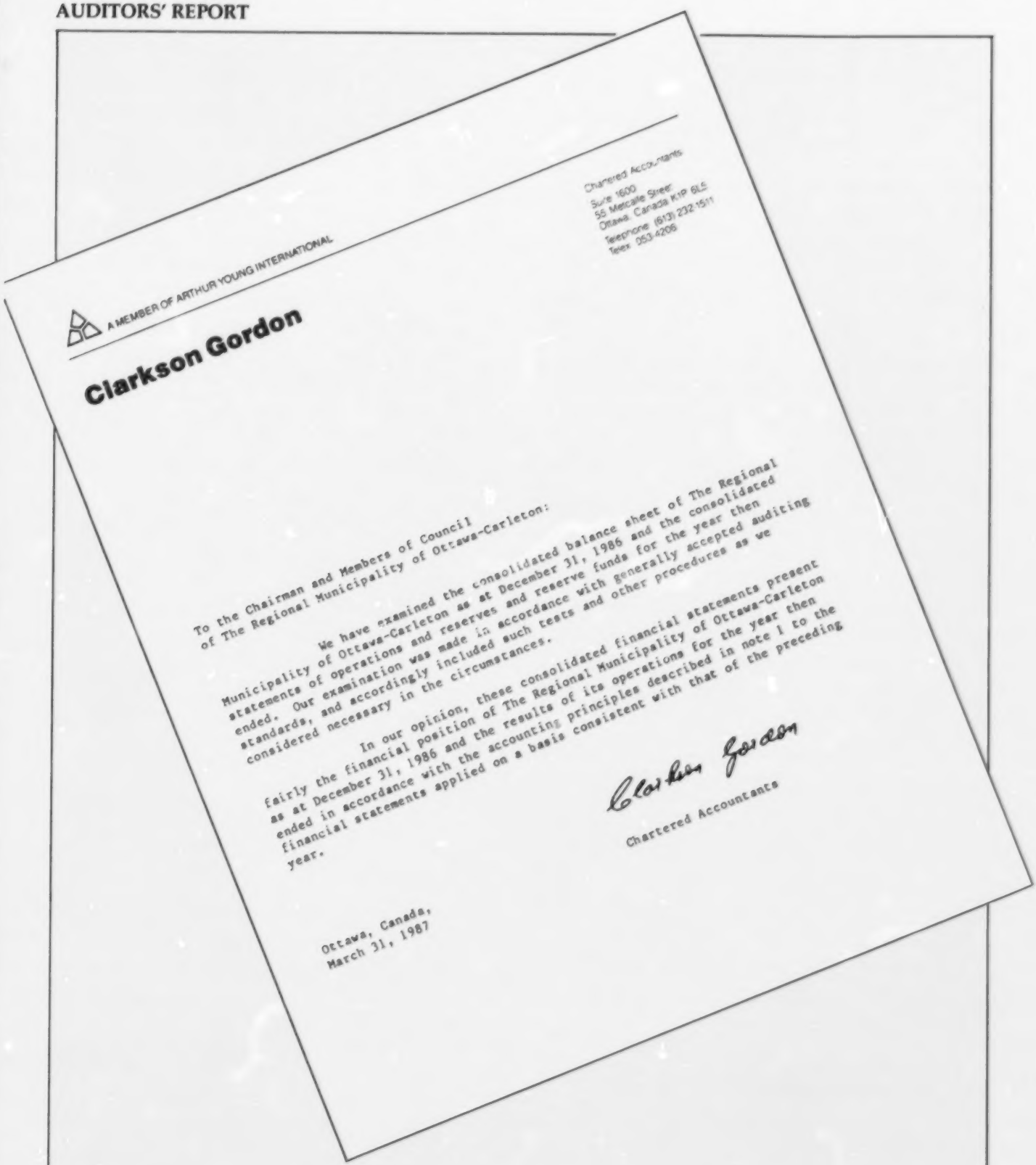
The capital requirements identified in the ten-year budget forecast will result in some very significant increases in capital financing costs in future years. If the Region is to maintain its premier credit rating, new sources of capital financing must be vigourously pursued.

Finally I would like to take this opportunity to acknowledge the cooperation and assistance received throughout 1986 from Council, Department Heads and the many other officials in the various Regional departments and to thank, in particular, all the Finance Department staff for their continued dedication and hard work.

J.C. LeBelle, C.A.
Finance Commissioner and Treasurer

(All dollar amounts are in thousands except where indicated)	1986	1985	1984	1983	1982
Statistical Information					
Population	605,545	599,688	581,104	569,747	562,782
Households	245,052	237,726	231,237	223,307	216,764
Regional employees — Full time	4,638	4,483	4,346	4,235	4,199
Equalized assessment					
— Total (millions)	29,628	24,518	21,075	18,476	16,553
— Per household	121	103	91	83	76
Current Revenue					
— Levies	155,159	140,146	123,375	106,671	93,698
— Grants	142,867	124,676	111,656	101,400	90,613
— Total	425,638	379,012	335,909	298,923	264,201
Current Expenditure					
— Fiscal	92,732	80,172	68,064	58,445	49,459
— Operating	332,906	296,284	269,848	241,023	215,967
— Total	425,638	376,456	337,912	299,468	265,426
— Per household (dollars)	1,737	1,584	1,461	1,341	1,224
Capital Financing					
— Debentures	28,289	24,406	26,513	20,581	23,981
— Own funds	47,543	35,453	28,716	18,061	17,457
— Total	118,710	114,679	117,258	96,409	87,511
Capital Expenditure					
— Transportation	81,741	91,677	87,838	66,241	48,460
— Total	118,308	115,748	116,233	95,508	81,495
— Per household (dollars)	483	487	503	428	376
Net Long Term Debt					
— Total	201,370	190,223	183,128	172,370	164,993
— Per household (dollars)	822	800	792	772	761
— % of equalized assessment	0.68	0.78	0.87	0.93	1.00
Reserves & Reserve Funds	97,744	83,260	73,786	66,447	53,537

AUDITORS' REPORT



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
Suite 1600
55 Metcalfe Street
Ottawa, Canada K1P 6L5
Telephone (613) 232-1511
Telex 053-4206

To the Chairman and Members of Council
of The Regional Municipality of Ottawa-Carleton:

We have examined the consolidated balance sheet of The Regional Municipality of Ottawa-Carleton as at December 31, 1986 and the consolidated statements of operations and reserve funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of The Regional Municipality of Ottawa-Carleton as at December 31, 1986 and the results of its operations for the year then ended in accordance with the accounting principles described in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Ottawa, Canada,
March 31, 1987

THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

CONSOLIDATED BALANCE SHEET
December 31, 1986
(in thousands)

	1986 $	1985 $
ASSETS		
Unrestricted		
Cash	3,378	
User charges receivable	8,769	9,062
Accounts receivable — Ontario	44,692	44,262
— Other	7,488	4,863
Inventories	5,645	5,831
Current portion of deferred costs	5,812	4,492
Restricted		
Investments (note 2)	65,211	57,258
Loans receivable	27,328	20,071
Long Term		
Capital outlay	201,370	190,223
Deferred costs	6,440	7,291
	376,133	**343,353**
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Temporary loans		8,565
Accounts payable	43,826	35,376
Loans from reserve funds	27,328	20,071
Other current liabilities	3,516	3,060
Long Term Liabilities		
Net long term debt (note 5)	201,370	190,223
Pension obligations and other	6,440	7,291
	282,480	264,586
Fund Balances (note 7)		
Reserves and reserve funds	97,744	83,260
Capital operations	(4,091)	(4,493)
	376,133	**343,353**

(See accompanying notes to consolidated financial statements)

THE REGIONAL
MUNICIPALITY OF
OTTAWA-CARLETON

SOURCES OF FINANCING

	1986 $	1985 $
Levy and User Charges		
Requisition on area municipalities	155,159	140,146
Transit fares	57,656	53,345
Sale of water	34,044	30,569
Sewer surcharge	8,156	5,442
Homes for the Aged resident fees	5,416	4,992
Garbage disposal fees	4,100	2,139
Daycare fees	969	1,021
Other	4,893	4,290
Contributions from Other Governments		
Canada	982	1,623
Ontario	184,498	177,635
Other municipalities	4,672	4,426
Other		
Investment income	8,505	7,967
Development charges	9,078	654
Miscellaneous	1,519	772
Proceeds from the Issue of Long Term Debt	28,289	24,406
	507,936	459,427
Reserves and Reserve Funds at Beginning of Year	83,260	73,786
	591,196	**533,213**

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 1986
(in thousands)

	1986 $	1985 $
EXPENDITURE		
Current Operations		
Deficit at beginning of year		2,556
General government	20,280	19,164
Roads and traffic	42,270	37,744
Transit	110,658	102,164
Sewer system	17,787	16,672
Waterworks system	32,779	29,300
Health services	14,290	14,324
Social services	84,186	69,943
Homes for the Aged	17,648	16,119
Children's Aid Society	3,991	3,709
Daycare	15,461	12,763
Planning and development	7,957	7,546
Other	3,441	3,270
	370,748	335,274
Capital Operations		
Unfinanced capital operations at beginning of year	4,493	3,424
General government	3,208	2,371
Roadways	34,775	37,120
Transit	46,967	54,557
Sewer system	15,577	9,433
Waterworks system	9,988	9,175
Garbage disposal	1,603	342
Other	6,191	2,750
	122,802	119,172
Transfer of Reserve Funds to Area Municipalities	3,993	
Total Expenditure	497,543	454,446
Balances at End of Year		
Reserves and reserve funds	97,744	83,260
Unfinanced capital operations	(4,091)	(4,493)
	591,196	**533,213**

(See accompanying notes to consolidated financial statement)

THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

CONSOLIDATED STATEMENT OF RESERVES AND RESERVE FUNDS
year ended December 31, 1986
(in thousands)

	1986 $	1985 $
Balance at beginning of year	83,260	73,786
Revenue		
Contributions from current operations	47,956	38,174
Investment income	8,488	7,727
Development charges	9,078	654
Other	21	211
Total Revenue	65,543	46,766
Expenditure		
Transfers to capital operations	40,569	29,818
Transfers to current operations	6,456	7,403
Transfers to area municipalities	3,993	
Other	41	71
Total Expenditure	51,059	37,292
Balance at end of year	**97,744**	**83,260**
Reserves		
Working capital	2,305	2,305
Capital expenditures	176	1,496
Vested employee benefits	719	819
Deferred costs	1,498	823
Inventory	213	254
Self insurance	294	234
	5,205	5,931
Reserve Funds		
Capital expenditures	54,354	46,728
Debenture currency exchange	7,678	13,225
Vested employee benefits	7,572	6,818
Equipment replacement	8,004	5,954
Winter control	1,824	1,670
Landfill	2,282	1,301
Self insurance	963	968
Development charges	9,842	654
Local improvement commutation	20	11
	92,539	77,329
	97,744	**83,260**

(See accompanying notes to consolidated financial statements)

Note 1. ACCOUNTING POLICIES

These consolidated financial statements of The Regional Municipality of Ottawa-Carleton (the "Region") are the representation of management and are prepared in accordance with accounting policies prescribed for Ontario municipalities by the Ministry of Municipal Affairs. Since precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves estimates which have been made using careful judgement.

a. Basis of Consolidation

These consolidated statements reflect the assets, liabilities, sources of financing and expenditures of the current fund, capital fund, reserves and reserve funds and include the activities of all committees of Council and the Ottawa-Carleton Regional Transit Commission.

All interfund assets and liabilities and sources of financing and expenditures have been eliminated with the exception of loans or advances between reserve funds and any other fund of the Region and the resulting interest income and expenditures.

Trust Funds at the Homes for the Aged are not consolidated but are reported separately on the "Trust Funds Statement of Continuity and Balance Sheet". There are no other non-consolidated entities.

b. Basis of Accounting

(i) Sources of financing and expenditures are reported on the accrual basis of accounting with the exception of principal and interest charges on long term debt and vested leave benefits which may be paid on termination both of which are charged against operations in the years in which they are paid. The accrual basis of accounting recognizes revenues as they become available and measurable; expenditures are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

(ii) The historical cost and accumulated depreciation for fixed assets are not recorded for municipal purposes. Fixed assets are reported as an expenditure on the Consolidated Statement of Operations in the year of acquisition.

(iii) Capital outlay which represents the outstanding principal portion of unmatured long term debt for municipal expenditures or capital funds transferred to other organizations, is reported on the Consolidated Balance Sheet.

(iv) Assets and liabilities expressed in a foreign currency are translated into Canadian dollars at the current rate of exchange at the balance sheet date, except for long term debt and other restricted foreign currency balances which are translated into Canadian dollars at the rate of exchange in effect when the transaction occurred.

(v) Reserves are allocations out of current operations which are retained for general or specific purposes. Reserve Funds which usually require allocations out of current operations are supported by designated assets, usually cash and investments set aside by By-law for some specific future use. Contributions from current operations to Reserves and Reserve Funds are recorded as expenditures in the Consolidated Statement of Operations.

(vi) Inventories of materials and finished goods are reflected at cost on the basis of latest invoice price plus direct labour and overhead where applicable.

(vii) Debenture issue commissions and expenses as well as underwriting premiums are reflected in the Consolidated Statement of Operations in the year in which the debentures are issued. Underwriting discounts are reflected in the following year in accordance with section 187(3) of the Municipal Act.

(viii) Investments are initially recorded at cost and are adjusted annually for amortization of discount or premium on the basis of the effective annual yield as determined at the date of purchase with the amount of such amortization included in investment income.

Note 2. INVESTMENTS

Restricted investments are comprised of (in thousands):

	Amortized Cost	Par Value	Market Value
Regional debentures	$24,383	$25,405	$28,824
Other investments	39,552	39,684	39,817
	63,935	65,089	68,641
Accrued interest	1,276		
	$65,211	$65,089	$68,641

Note 3. PENSIONS

a. The Region provides pension benefits for its employees and members of Regional Council through the Ontario Municipal Employees' Retirement System (OMERS), as well as the City of Ottawa Superannuation Fund (COSF) for certain employees formerly with the City of Ottawa.

Actuarial evaluations of the OMERS and COSF plans were made on January 1, 1985 and December 31, 1985 respectively and no experience deficiency existed in either plan.

The Region's share of the annual contribution to pension plans is charged to expenditures in the year in which the contribution is made.

b. The Ottawa-Carleton Regional Transit Commission has a contributory pension plan for which a past service liability of $7,130,000 ($7,824,000 in 1985) has been reported on the Consolidated Balance Sheet. This amount represents the present value, at a discounted rate of 6.5 percent, of prescribed future annual payments totalling (in thousands):

	Annual Payment	Total
1987-1990	$957	$3,828
1991	855	855
1992	830	830
1993	671	671
1994	644	644
1995	575	575
1996-1999	562	2,248
		$9,651

An actuarial evaluation as of January 1, 1985 indicated that there was no experience deficiency in the pension plan.

Note 4. LIABILITY FOR VESTED EMPLOYEE BENEFITS

The Region's liability with respect to employees' accumulated sick leave and annual leave days, to the extent that they are vested and could be taken in cash by an employee on termination, amounted to approximately $11,917,000 as at December 31, 1986 ($11,495,000 in 1985).

The Region has a Reserve and Reserve Fund for vested employee benefits, the aggregate balances of which at December 31, 1986 amounted to $8,291,000 ($7,637,000 in 1985).

Note 5. NET LONG TERM DEBT

a. The balance of net long term debt reported on the Consolidated Balance Sheet is comprised of (in thousands):

	1986	1985
Long term debt issued by the Region	$406,548	$370,438
Long term debt issued by area municipalities and assumed by the Region	10,254	11,320
Total gross long term debt	416,802	381,758
Less total value of the Sinking Fund which has been accumulated to the end of the year to retire outstanding long term debt	65,231	57,004
Total net long term debt	351,571	324,754
Less net long term debt recoverable from area municipalities and school boards	150,201	134,531
Net long term debt for Regional purposes only	$201,370	$190,223

b. Principal payments including contributions to the Sinking Fund and interest charges for 1987 and future years are (in thousands):

	Principal	Interest	Total
1987	$ 15,949	$ 24,670	$ 40,619
1988	16,071	23,664	39,735
1989	16,977	22,535	39,512
1990	17,217	21,152	38,369
1991	15,713	20,198	35,911
1992-1996	64,567	68,438	133,005
1997 and thereafter	30,809	25,729	56,538
	$177,303	$206,386	$383,689
These charges will be paid from:			
General municipal operations	$145,119	$174,590	$319,709
Water operations	27,057	28,160	55,217
OC Transpo operations	5,127	3,636	8,763
	$177,303	$206,386	$383,689

In addition, it is estimated that total interest to be earned by the Sinking Fund will amount to approximately $24,067,000 which will be used to retire sinking fund debenture debt commitments at maturity.

c. Included in net long term debt on the Consolidated Balance Sheet is an amount of $71,509,000 ($79,215,000 in 1985) payable in U.S. currency which is recorded in Canadian dollars at the rate of exchange prevailing when the debt was incurred. If this debt was recorded in Canadian dollars at the exchange rate prevailing at December 31, 1986, it would be increased by $17,053,000 ($20,421,000 in 1985).

In addition, long term debt payable in U.S. currency for area municipality purposes (reported in note 5(a)) and recorded in Canadian dollars at the rate of exchange prevailing when the debt was incurred amounts to $38,665,000 Cdn. as at December 31, 1986 ($44,154,000 in 1985). If this debt was recorded in Canadian dollars at the exchange rate prevailing at December 31, 1986, it would be increased by $7,424,000 ($9,491,000 in 1985).

As at December 31, 1986, the Region has a Debenture Currency Exchange Reserve Fund in the amount of $7,678,000 a portion of which is used each year to offset foreign exchange costs of the Region.

d. The Region has exclusive authority to issue debentures for the purpose of financing its own projects and those of the area municipalities. All such debentures are direct, joint and several obligations of the Region and area municipalities. Area municipalities act as intermediaries for their respective electric utilities as no debt is issued directly on behalf of utilities by the Region. In addition, provincial legislation introduced in 1980 also permits the Region to issue debentures for purposes of school boards within Regional boundaries.

The Region is therefore contingently liable for long term debt for which the responsibility for the payment of principal and interest has been assumed by the area municipalities and school boards. The total outstanding as at December 31, 1986 is $150,201,000 ($134,531,000 in 1985) and is not recorded on the Consolidated Balance Sheet.

Note 6. CHARGES FOR NET LONG TERM DEBT (REGIONAL PURPOSES)

Total charges for the year for net long term debt which are reported on the Consolidated Statement of Operations are (in thousands):

	1986	1985
Principal payments including contributions to the Sinking Fund	$14,918	$14,363
Interest	22,884	22,001
	$37,802	$36,364
These charges are paid from:		
General municipal operations	$29,594	$27,964
Water operations	6,728	6,797
OC Transpo operations	1,480	1,603
	$37,802	$36,364

Note 7. FUND BALANCES AT END OF YEAR

a. The unfinanced capital operations of $5,573,000 ($4,493,000 in 1985) at the end of the year is comprised of (in thousands):

	1986	1985
Projects to be financed from the proceeds of long term debt	$2,697	$4,493
Projects to be recovered through reserve funds	2,876	
	$5,573	$4,493

b. Approval of the Ontario Municipal Board has been obtained for the pending issues of long term debt.

c. A surplus of $5,588,000 ($2,950,000 in 1985) in the current operations fund was contributed to the following capital projects reserve funds as authorized by Council (in thousands):

	1986	1985
General	$2,288	$ 536
Water	81	1,151
Sewer	1,199	949
Transit	1,273	67
Landfill	747	247
	$5,588	$2,950

Note 8. CONTINGENT LIABILITIES

a. A number of major landlords within the Region have instituted an action appealing the method used in calculating the assessment of multi-unit dwellings. The Country Court has reversed a decision of the Assessment Review Court and has ruled in favour of the appellants but the decision is being appealed to the Ontario Municipal Board. Due to the degree of uncertainty in establishing the validity and the quantum of the claims, no provision has been recognized in the accounts of the Region.

b. The Region has other outstanding litigation and claims in dispute as at December 31, 1986 the settlement of which is not expected to have any material effect upon the current operations of the Region and accordingly, no provision has been made in the accounts.

Note 9. NONACCRUAL OF INTEREST ON LONG TERM DEBT

No provision has been made in the consolidated financial statements for the accrual of interest on net long term debt. Had this provision been made for the first time in 1986, there would have been an additional charge of $7,989,000 ($6,679,000 in 1985). There would have been no change in the fund balance for current operations as this additional amount would have been levied in the year of change.

Note 10. COMMITMENTS

a. The Region has outstanding commitments with respect to capital authorities existing at December 31, 1986 in the amount of $56,414,000 ($25,668,000 in 1985).

b. The Region is also committed to the following payments over the next five years under various lease agreements (in thousands):

1987	$3,188
1988	3,039
1989	2,897
1990	2,085
1991	59

Note 11. OTHER

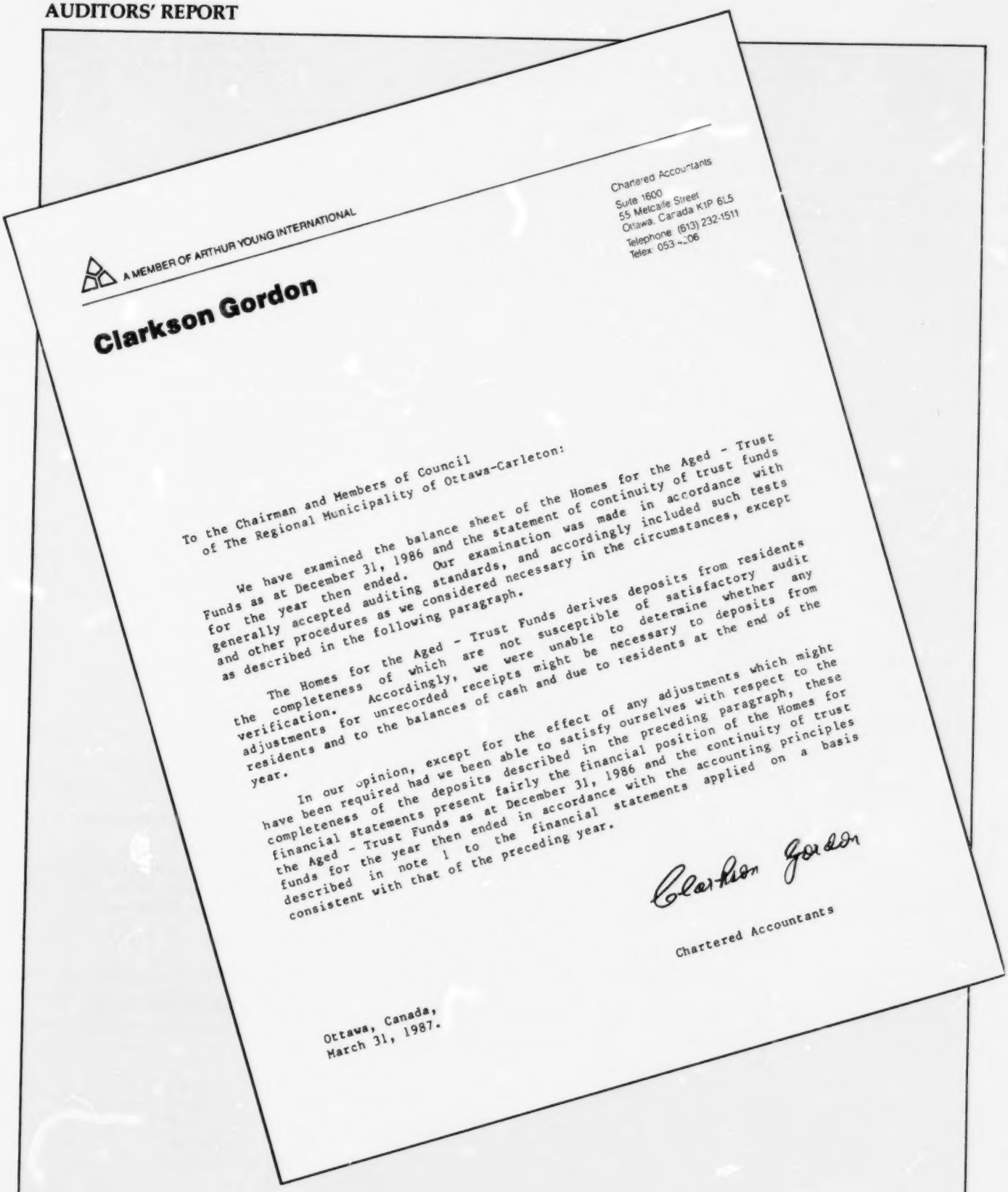
In the spring of 1986, a potential environmental hazard was discovered at the Lees Avenue transitway station and on the bottom of the nearby Rideau River.

The cost of related remedial work to December 31, 1986 amounted to $8,308,000 and is included in the consolidated financial statements. An additional $3,692,000 is expected to be incurred in 1987 to complete the work. On March 31, 1987, the Province of Ontario provided financial assistance in the amount of $5,500,000 towards the cost of this work.

Note 12. FINANCIAL STATEMENT PRESENTATION

Certain of the 1985 figures have been reclassified to conform to the presentation followed in 1986.

AUDITORS' REPORT



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Clarkson Gordon

Chartered Accountants
Suite 1600
55 Metcalfe Street
Ottawa, Canada K1P 6L5
Telephone (613) 232-1511
Telex 053 [illegible]06

To the Chairman and Members of Council
of The Regional Municipality of Ottawa-Carleton:

We have examined the balance sheet of the Homes for the Aged - Trust Funds as at December 31, 1986 and the statement of continuity of trust funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as described in the following paragraph.

The Homes for the Aged - Trust Funds derives deposits from residents the completeness of which are not susceptible of satisfactory audit verification. Accordingly, we were unable to determine whether any adjustments for unrecorded receipts might be necessary to deposits from residents and to the balances of cash and due to residents at the end of the year.

In our opinion, except for the effect of any adjustments which might have been required had we been able to satisfy ourselves with respect to the completeness of the deposits described in the preceding paragraph, these financial statements present fairly the financial position of the Homes for the Aged - Trust Funds as at December 31, 1986 and the continuity of trust funds for the year then ended in accordance with the accounting principles described in note 1 to the financial statements applied on a basis consistent with that of the preceding year.

Clarkson Gordon

Chartered Accountants

Ottawa, Canada,
March 31, 1987.

THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

HOMES FOR THE AGED — TRUST FUNDS
year ended December 31, 1986

STATEMENT OF CONTINUITY

	Island Lodge	Carleton Lodge	Centre D'Accueil Champlain	1986 Total	1985 Total
Balance at beginning of year	$1,082,278	$265,726	$163,952	$1,511,956	$1,436,891
Deposits from residents	551,745	188,312	91,856	831,913	781,414
Interest earned	79,439	18,244	10,555	108,238	115,199
	1,713,462	472,282	266,363	2,452,107	2,333,504
Payments on behalf of residents	566,081	241,507	114,754	922,342	821,548
Balance at end of year	$1,147,381	$230,775	$151,609	$1,529,765	$1,511,956

BALANCE SHEET

Assets					
Cash	$1,147,381	$230,775	$151,609	$1,529,765	$1,511,956
Liabilities					
Due to residents	$1,147,381	$230,775	$151,609	$1,529,765	$1,511,956

(See accompanying note to the financial statements)

Note 1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Homes for the Aged — Trust Funds of The Regional Municipality of Ottawa-Carleton have been prepared by management within reasonable limits of materiality and in accordance with accounting policies which conform to accounting principles prescribed for Ontario municipalities and on a basis consistent with that of the preceding year. The following is a summary of the significant accounting policies of the Homes for the Aged — Trust Funds:

a. Deposits from residents and payments to or on behalf of residents are recorded on a cash basis.

b. Interest earned is recorded one month in arrears.